

Where Does The Money Come From?

Where Does the Money Go?



An Overview of the State's Revenues and Expenditures



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Office of Fiscal Analysis
January 25, 2005

Office of Fiscal Analysis Connecticut General Assembly



- ❖ We are a Non-partisan Professional Staff Office
- ❖ We Serve the Appropriations & Finance Committees, Legislative Leadership, Substantive Committees, Rank and File Legislators
- ❖ We Conduct Research on Programs, Budget Recommendations, and New Initiatives
- ❖ We Provide Legislative Oversight of State's Annual \$14 Billion Budget

OFA Staff Role



- Analyze Current Services Estimates, Track & Forecast Expenditure & Revenue Levels
- Develop Forecasting Models
- Develop Out-Year Expenditure & Revenue Projections
- Estimate Costs and Program Impact for All Legislative Budgetary Changes
- Record Legislative Intent
- Assist in Developing Alternative Proposals
- Analyze Fiscal Impact of All Bills & Amendments
- Prepare & Publish Budget Book Based on Final Action

STATE BUDGET- FY05



GENERAL FUND

\$13.226 BILLION



TRANSPORTATION FUND

\$929 MILLION



MASHANTUCKET PEQUOT AND MOHEGAN FUND

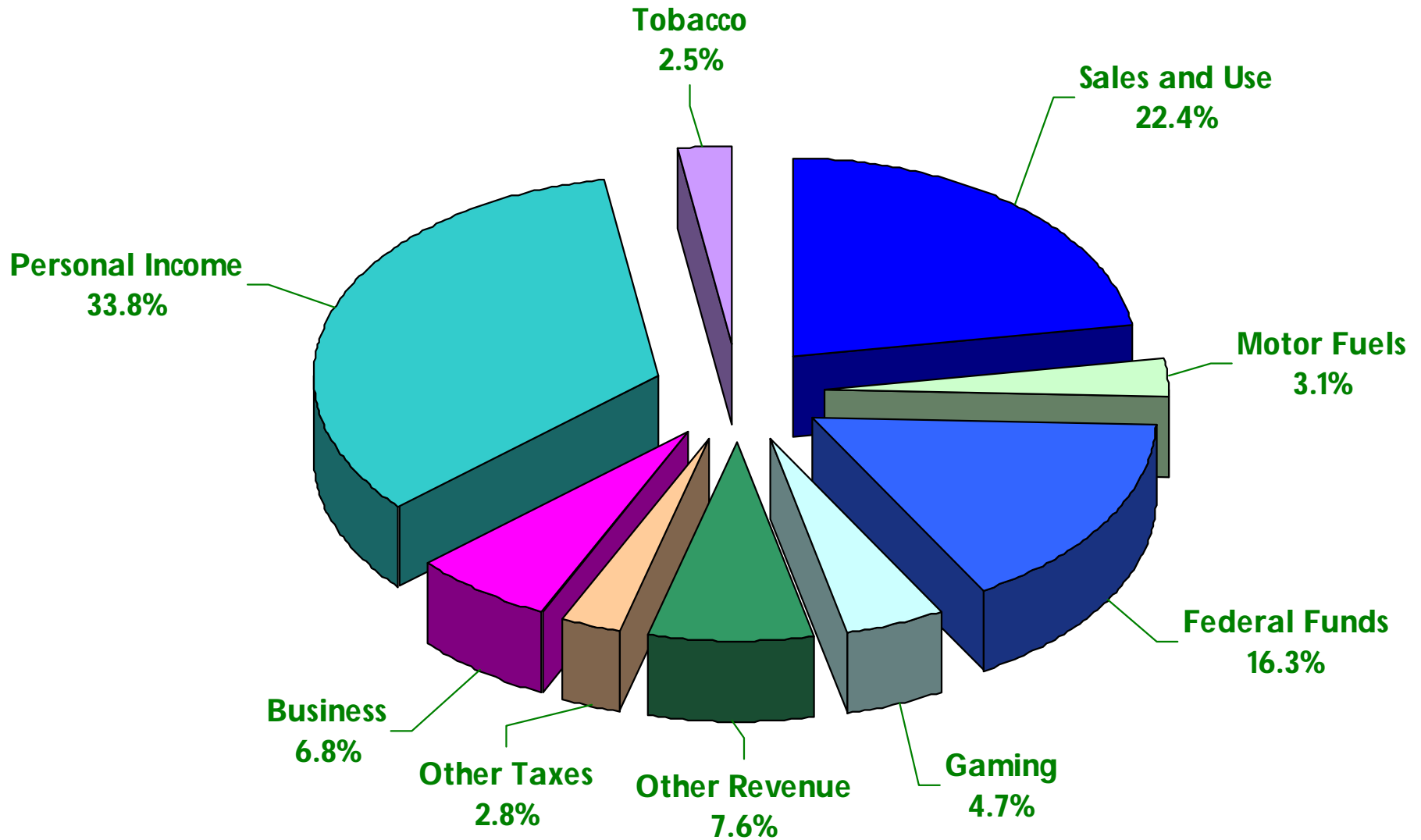
\$85 MILLION



ALL OTHER FUNDS

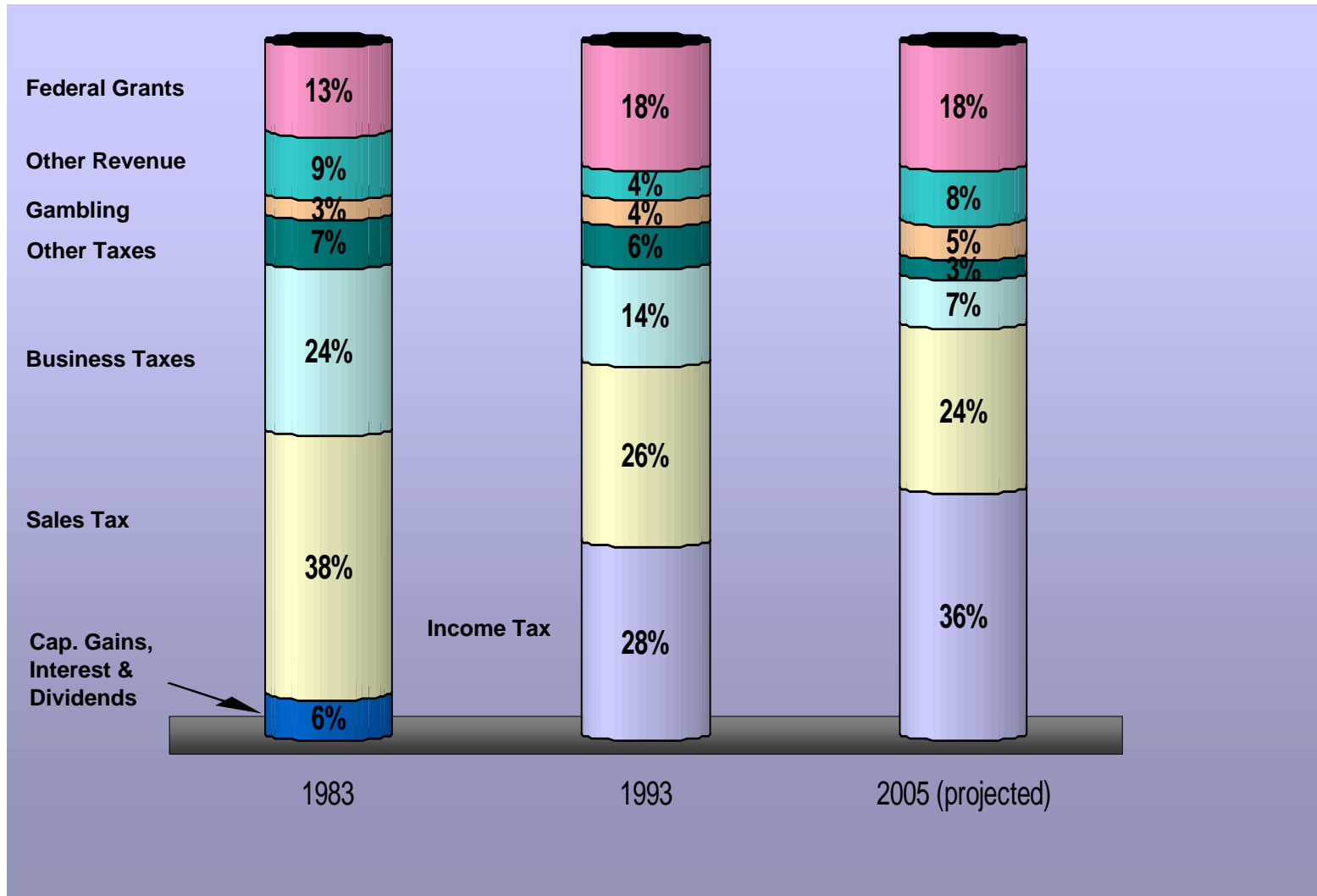
\$81 MILLION

REVENUE
(All Appropriated Funds)
FY 05 \$14,423.8 Million



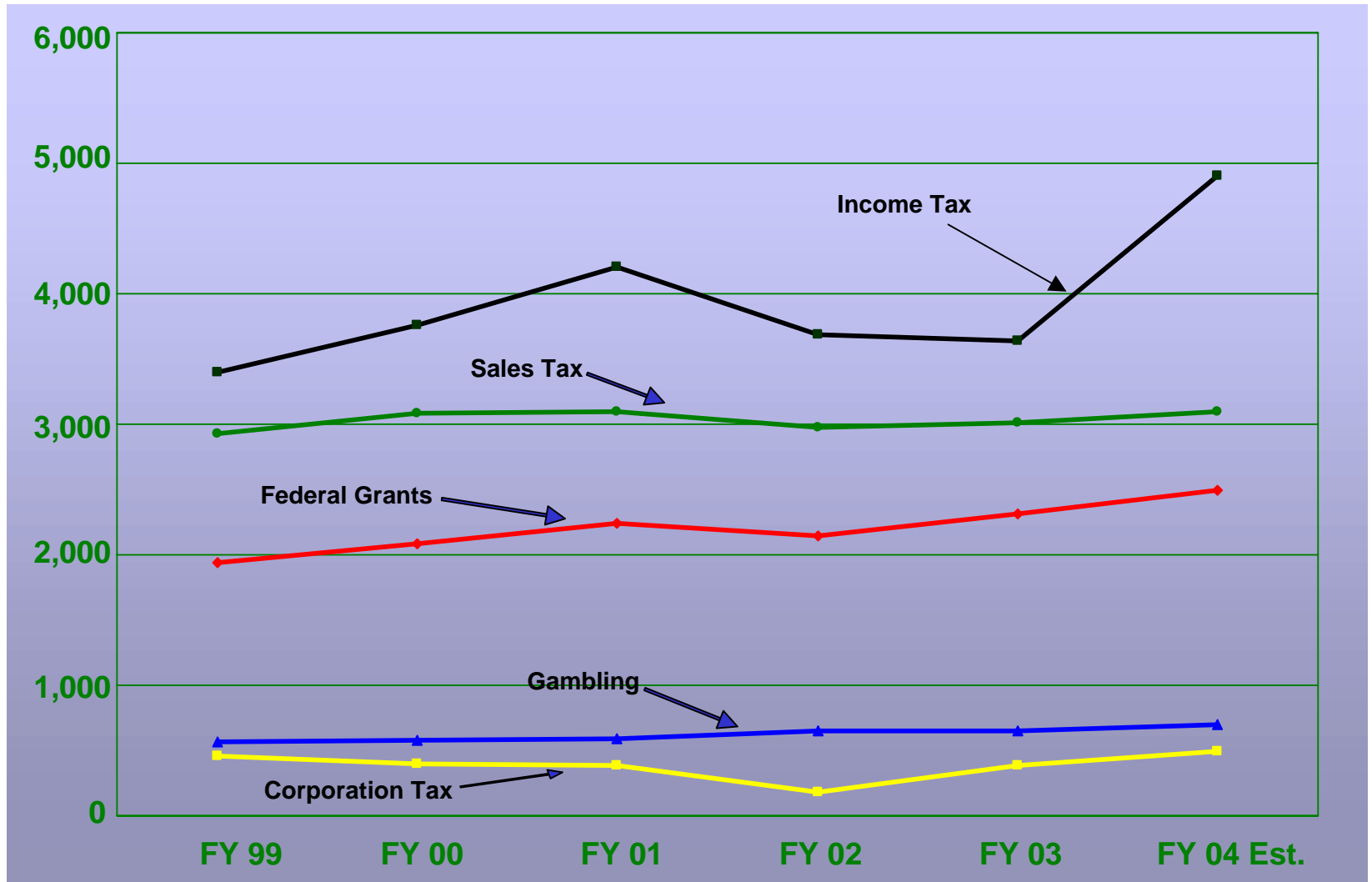
Source: Office of Fiscal Analysis

General Fund Revenue History



Source: Comptroller's Annual Report and Office of Fiscal Analysis

Revenue Since 1999



Source: Comptroller's Report Various Years

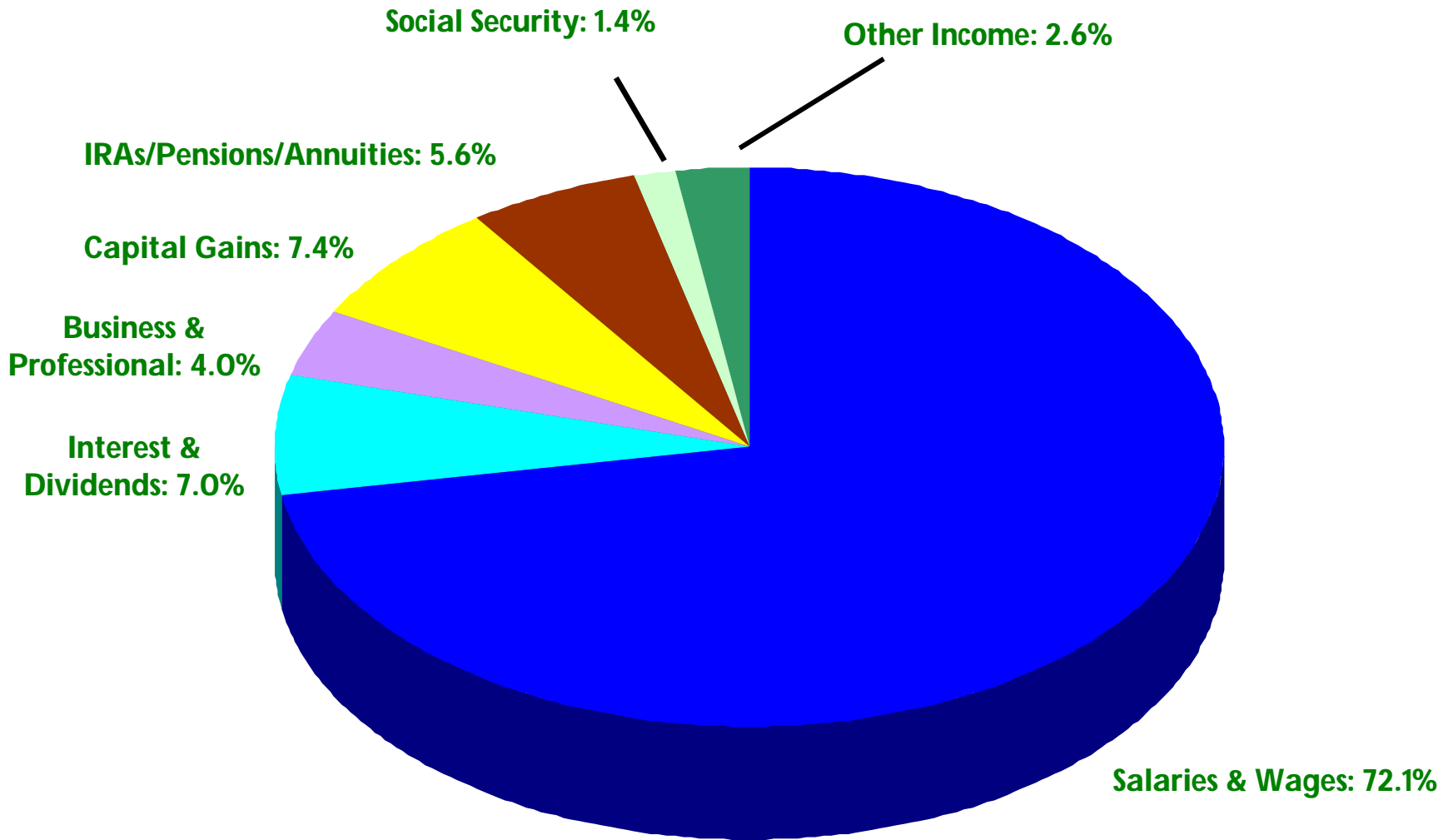
Income Tax Revenues

Total FY 04 Collections

\$4.9 Billion (Est.)

Source: Office of Fiscal Analysis

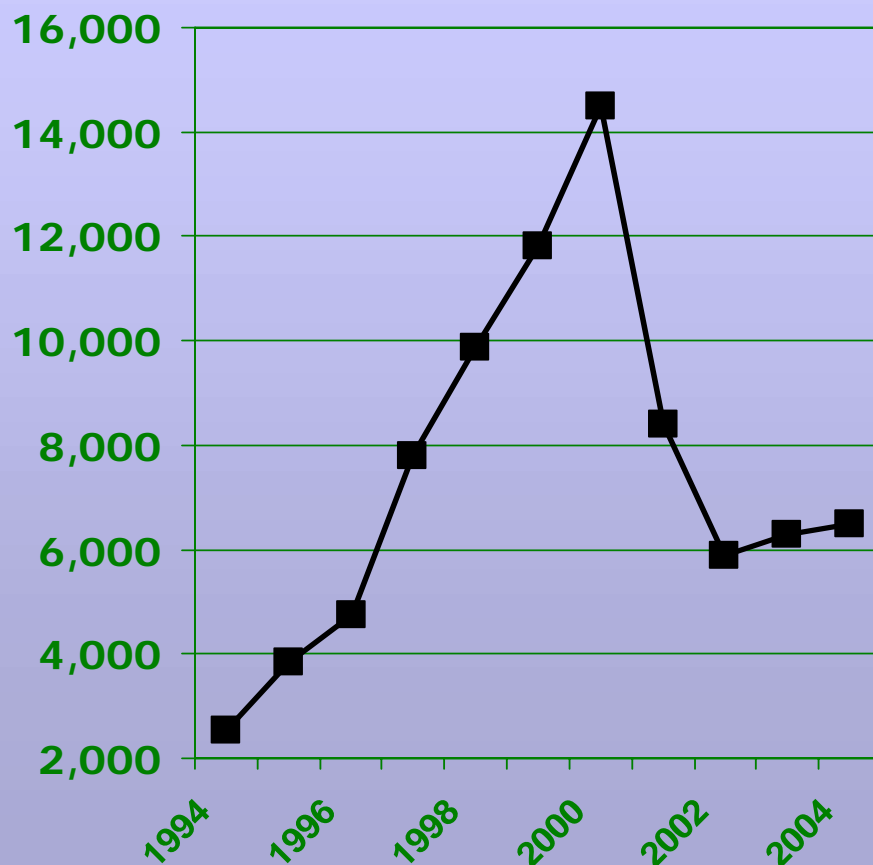
2002 Personal Income



Source: Department of Revenue Services

CT. Capital Gains

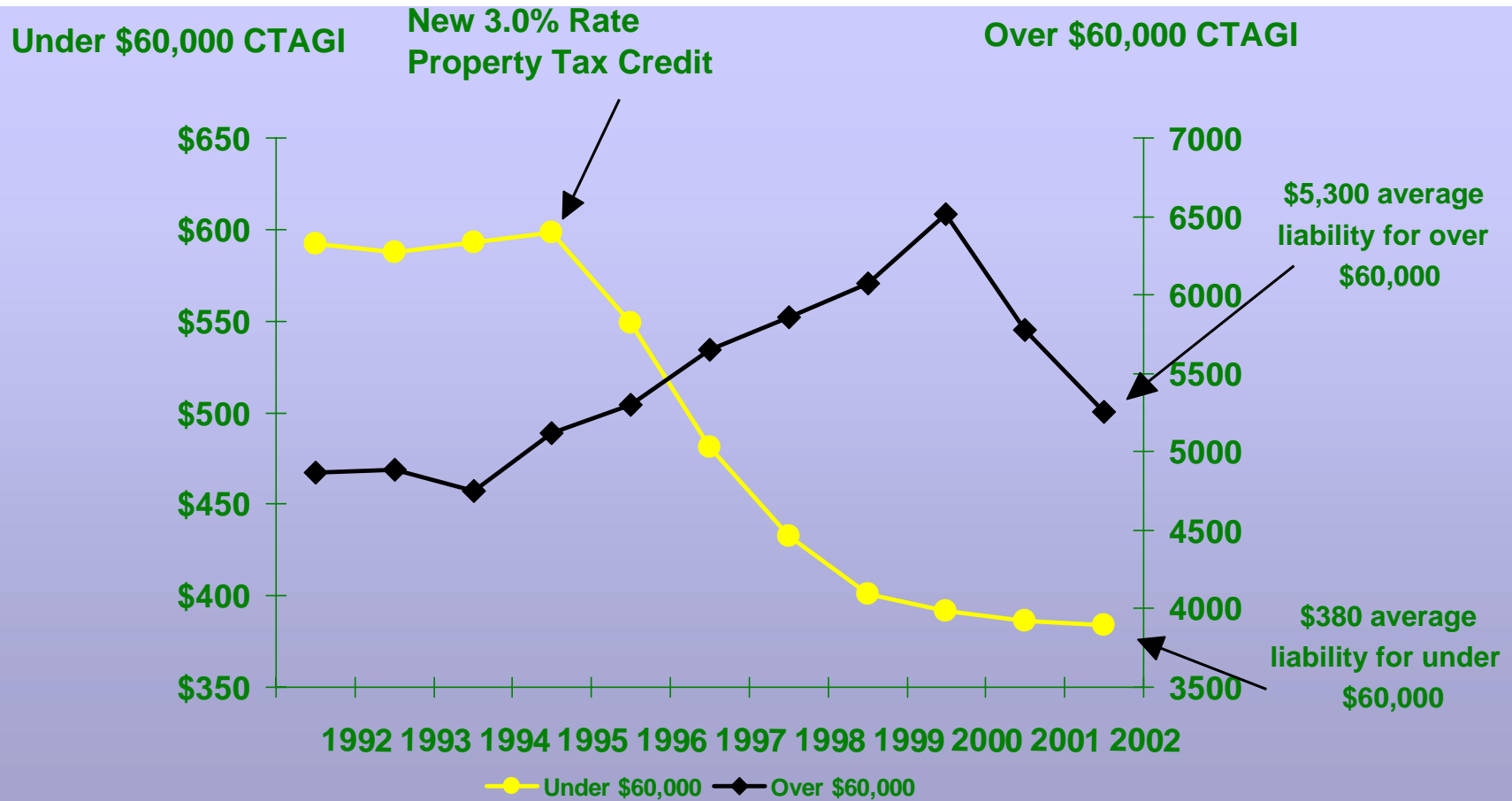
Total (in millions)



Annual % Change

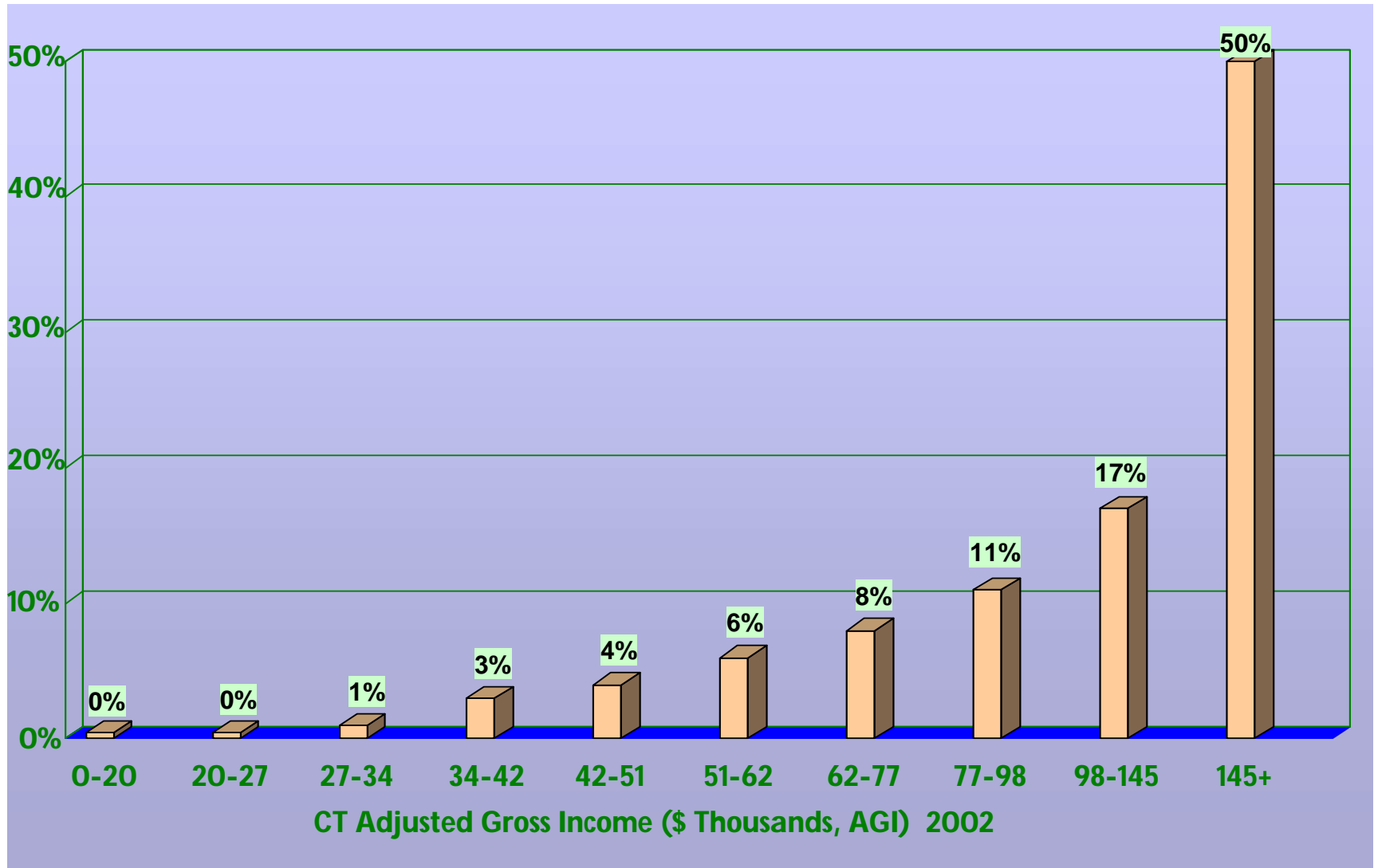
1995	50%
1996	23%
1997	65%
1998	27%
1999	21%
2000	23%
2001	-42%
2002Est.	-31%
2003Est.	8%
2004Est.	2%

Income Tax Liability Per Return



Source: Department of Revenue Services

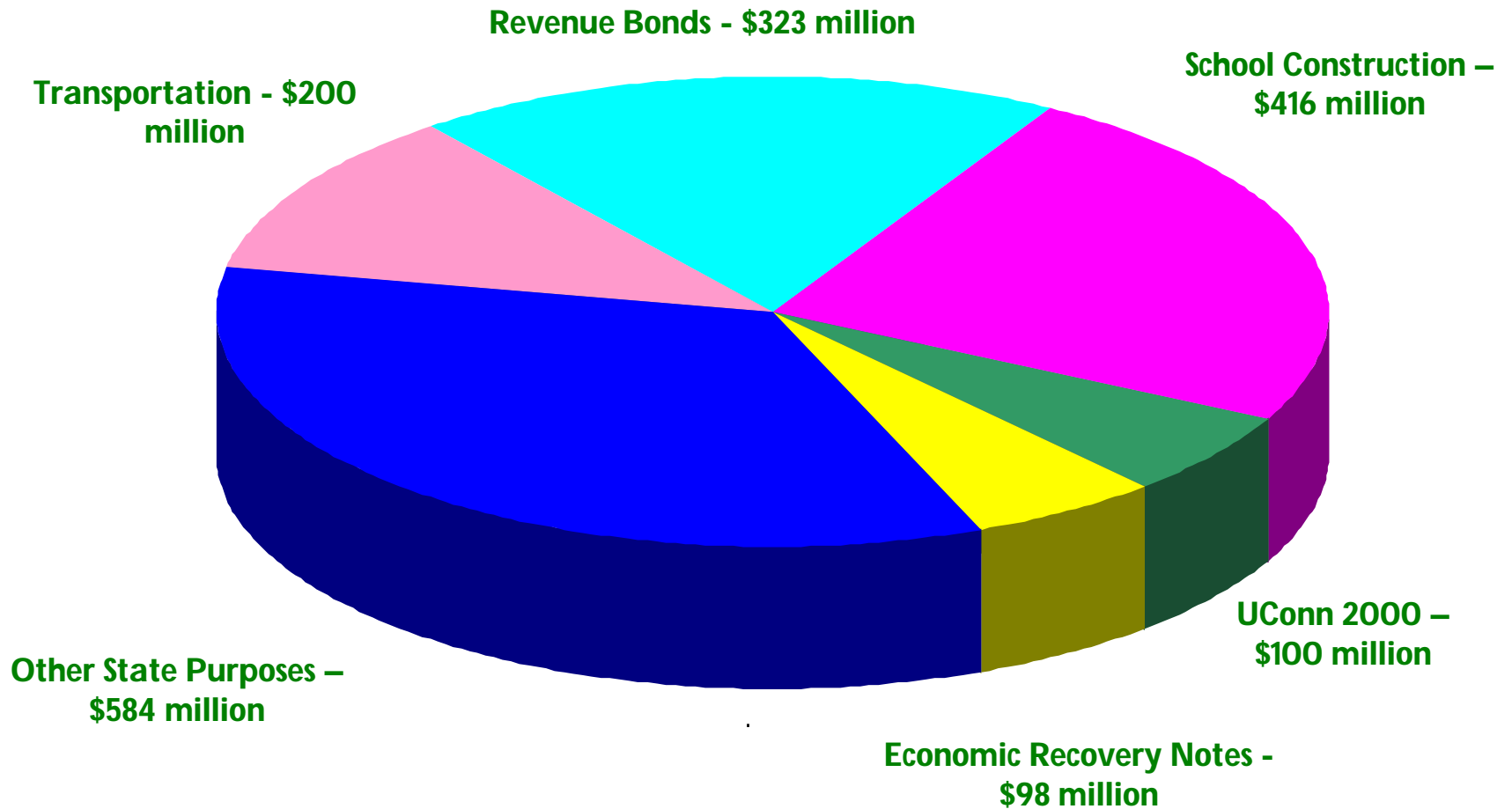
Income Tax Revenues By Income Group



Source: Department of Revenue Services

Bond Issuances \$1.7 Billion

FY 04



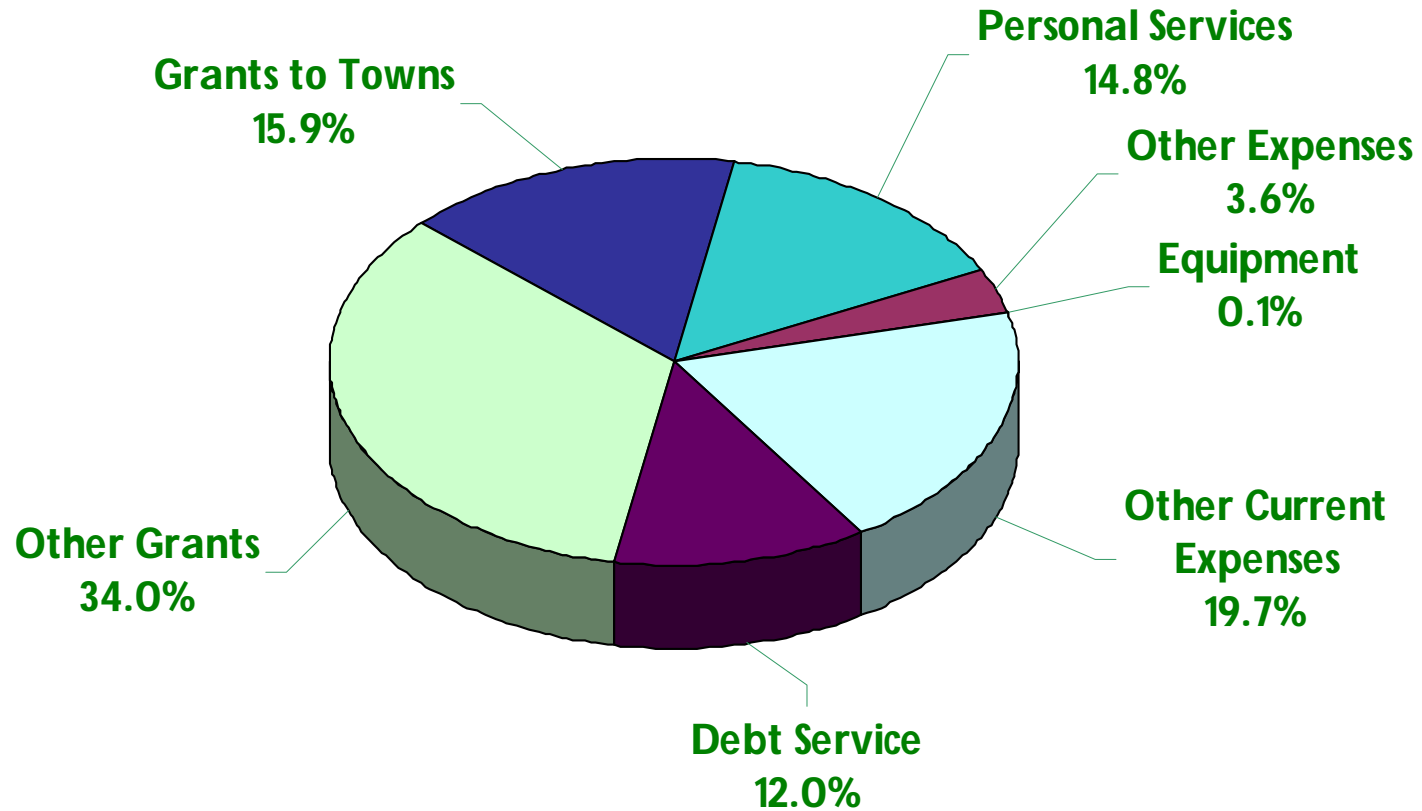
Source: State Treasurer

HOW THE STATE SPENDS ITS MONEY

All Appropriated Funds

By Character of Expenditure

FY 05 \$14,322.1 Million

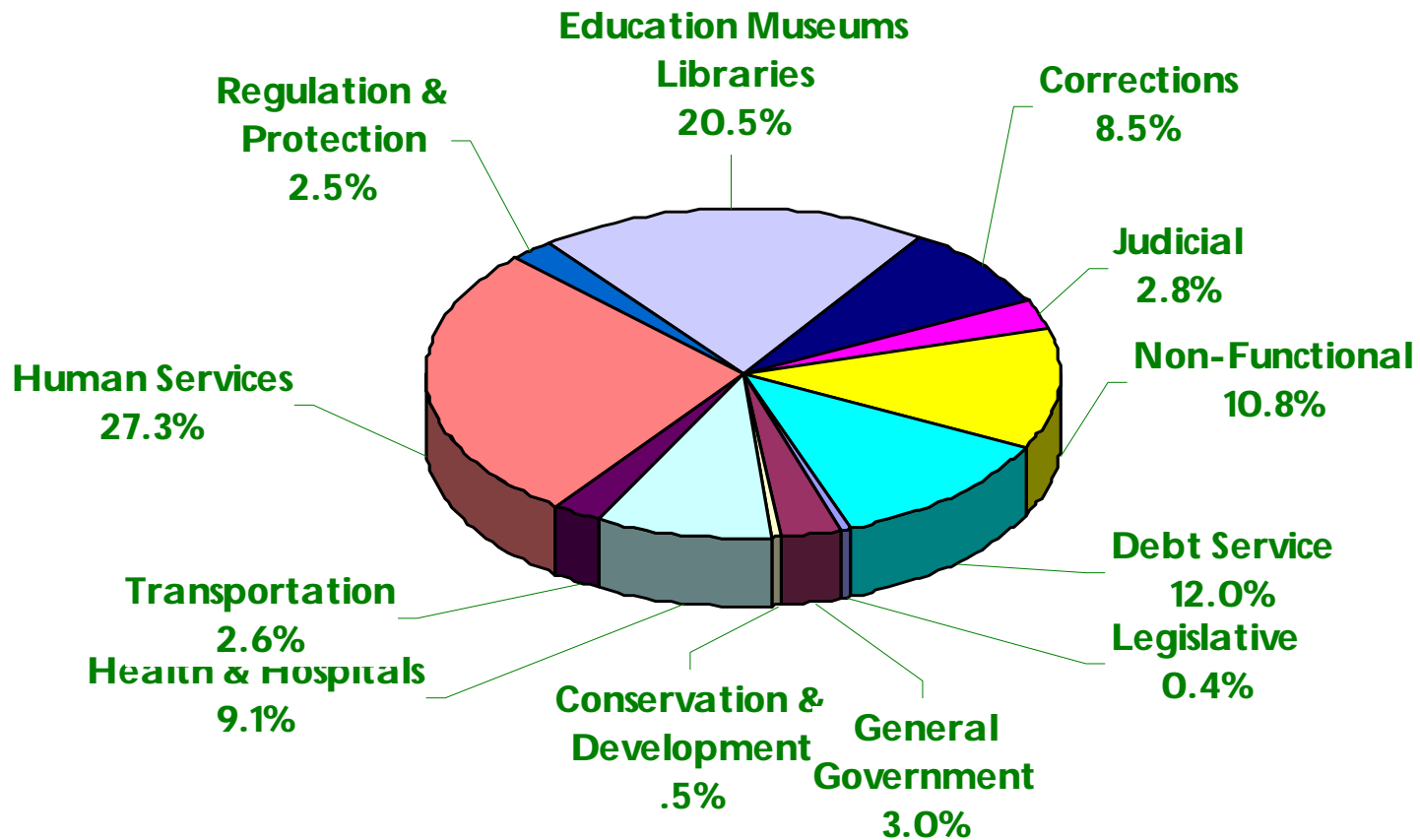


Source: Office of Fiscal Analysis

All Appropriated Funds

By Function of Government

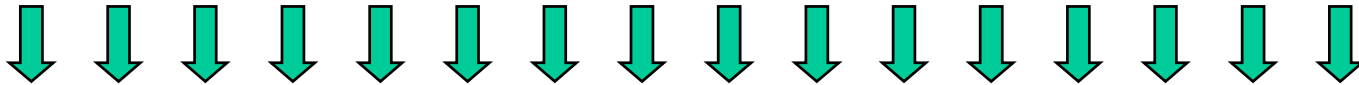
FY 05 \$14,322.1 Million



Source: Office of Fiscal Analysis

Overview of the Budget

Spending Cap

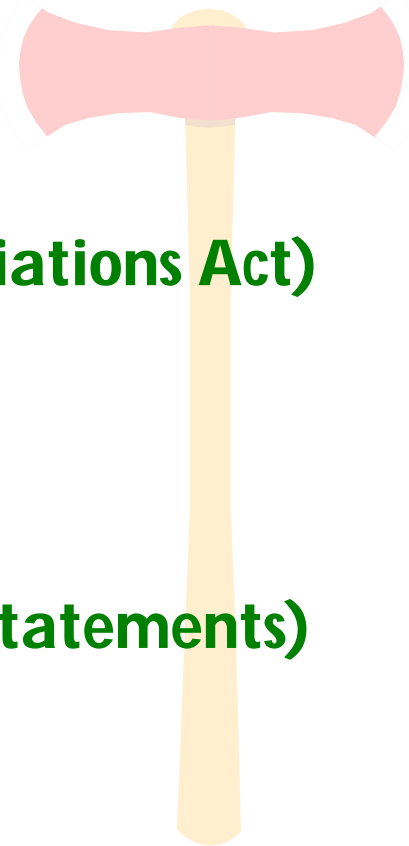


**Appropriated Funds =
Estimated Revenues**

Growth=Base Year x
5 Year Average Income Growth
(or) Prior Years Inflation Rate:
Which Ever is Greater

The Budget Process: Two Parts

- **Budget Formulation**
 - State Agency Requests
 - Governor & OPM
 - Legislature & OFA
 - Final Budget Action (Appropriations Act)
- **Budget Execution**
 - Appropriation
 - Quarterly Allotments
 - Oversight (Monthly Financial Statements)
- **Second Year of the Biennium**
 - Budget in Place
 - Expenditure/Revenue Estimates
 - Budget Revision



Overview of the Biennial Budget



- **First Year of the Biennium**

- Governor Proposes a Two Year Budget with Separate Appropriations for each Year
- Budget Reviewed on Many Levels by Legislature
- Agreement is Reached and Budget Becomes Law

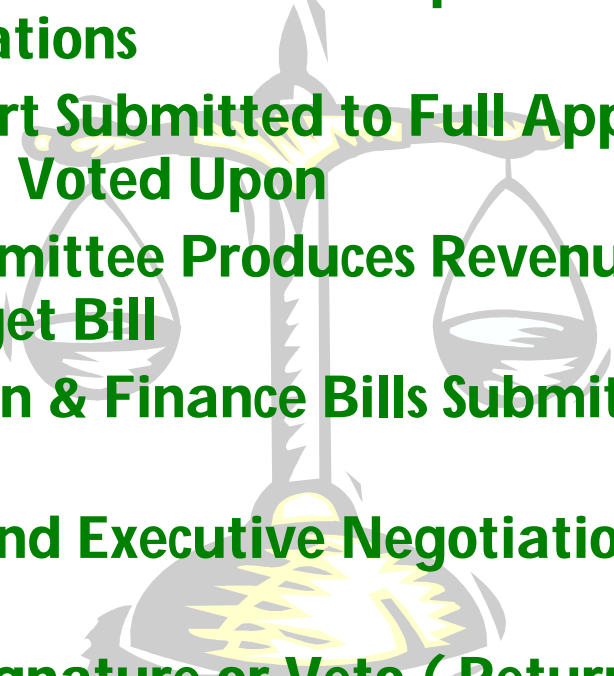
- **Second Year of the Biennium**

- Governor Proposes Revisions to the Second Year of the Budget by Amending the Current Law
- Budget Revisions Reviewed on Many Levels by Legislature
- Agreement is Reached and Budget Becomes Law

Legislature's Budget Process

- **Budget Submitted to Legislature: Governor's Message**
 - **Appropriations Holds Hearings for Each State Agency**
 - **Subcommittees Review Budget Information**
 - **OFA Staff Provide Information**
 - **Analysis of Current Services & Options**
 - **Analysis of Governor's Budget Recommendations**
 - **Research on Questions Raised by Legislators, Interest Groups & the Public**
 - **Subcommittee Reports to the Appropriations Chairmen**
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- A faint, stylized illustration of three people in business attire (two men and one woman) sitting around a table, reviewing documents. The illustration is positioned behind the list of bullet points, with the text overlaid on it.

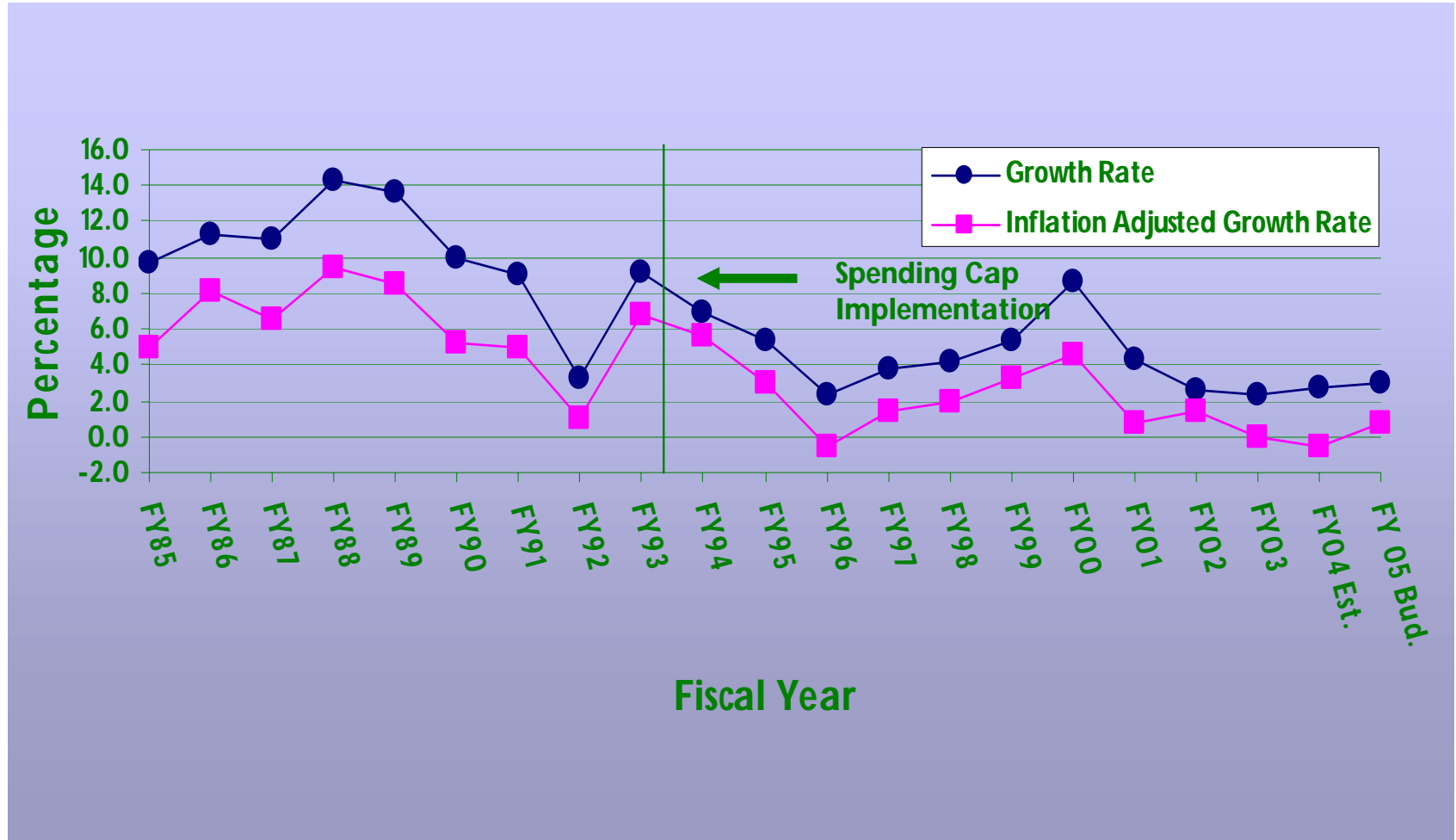
Legislature's Budget Process

- **Appropriations Chairmen Prepare Budget Recommendations**
 - **Budget Report Submitted to Full Appropriations Committee & Voted Upon**
 - **Finance Committee Produces Revenue Estimates & Capital Budget Bill**
 - **Appropriation & Finance Bills Submitted to House & Senate**
 - **Leadership and Executive Negotiations on Budget Prior to Passage**
 - **Governor's Signature or Veto (Returned to Legislature)**
- 

The Fiscal Note

- ✓ A Brief Statement of the Fiscal Impact Legislation Would Have on State and Local Government
- ✓ Prepared as an Objective Non-Partisan Statement by the Analyst with Budgetary Responsibility for Agency Fiscally Affected
- ✓ Required of Every Bill, Amendment, or Conference Report that Reaches the House or Senate Floor
- ✓ Fiscal Notes on Bills are Printed with Each File, Notes on Amendments are Delivered to the Floor
- ✓ Fiscal Notes Need Not be Requested, They Are Prepared Upon Receiving A Bill or Amendment from LCO
- ✓ Informal Costs Estimates are Prepared Upon Request If Time Permits

General Budget Expenditure Growth



Source: Office of Fiscal Analysis

Program Review and Investigations Committee Study of Budget Process September 2003

- **Incorporates a Long-term Perspective**
- **Links Budget to Broad Organizational Goals**
- **Focuses Decisions on Results**
- **Promotes Effective Communication Among Stake-Holders**
- **Provides Incentive to Improve Efficiency**

Quality Index: How Does Connecticut Score

Best Practices	CT Score	Perfect Score (Avg. Score)	No. States
<i>Balanced Budget Requirements</i>	16	20 (14)	
• Legislature enact balanced budget - constitutional	8	8	33
• Governor submit balanced budget - constitutional	0	7	28
• Governor sign balanced budget - constitutional	5	5	34
• Statutes require balanced budget be enacted, submitted, and/or signed	3	9	17
<i>Governor's Power to Reduce Spending</i>	20	25 (16)	
• Line item veto	10	10	42
• Authority to reduce budget without legislative approval	5	5	36
- Unrestricted authority to reduce	0	10	10
• Quarterly or monthly allotment process	5	5	27
<i>Stabilization Funds</i>	20	20 (19.7)	
• Rainy day fund	5	5	47
• Amount in reserve (balance as percent of expenditures times 3)	15	15	49
- Actual budget balance (2001) at or above 5%	5%	Range: 5% - 134.6%	37
<i>Understandable Budget and Finances</i>	20	35 (20)	
• Budget includes information on:			
- Program descriptions	2	2	45
- Caseloads that drive spending	2	2	41
- Number state employees	2	2	48
- Performance indicators/results	2	2	42
- Separate capital outlay presentation	2	2	50
• Use GAAP	0	10	16
• Use multi-year forecasting	5	5	32
• Publish multi-year forecasts	5	5	21
• Appropriate all non-federal funds	0	3	35
• Governor cannot spend unanticipated federal funds without legislative approval	0	2	18
<i>TOTAL</i>	76	100 (70)	50

Source of data: *Index of State Budget Process Quality, State Policy Reports*, Vol. 20, Issue 6, March 2002.

Where are we now?

How large will this year's deficit be?

How will the FY05 Budget be revised ?

Major Theme of OFA Fiscal Forecasts

FY05



Modest Surplus

FY06 & FY07



**Sizeable Structural Deficits &
Spending Cap Problems**

One-time Revenue Sources in FY05

Assumed in Budget Act Estimates:

	FY 05
1) Temporary Estate Tax	\$ 55.0
2) 25% corporate tax surcharge (annualization)	33.6
3) Unclaimed property liquidation	50.0
4) Reduction in the dormancy period for unclaimed property	17.3
5) Securitization of Clean Energy Fund	25.0
6) Transfer from Energy Conservation Fund	12.0
7) Transfer from CDA	10.0
8) Transfer from CII	5.0
9) Transfer from CHFA	2.5
10) Transfer from FY 04 resources	125.3
11) Transfer from Tobacco Health Trust Fund	12.0
12) Transfer from Biomedical Research Fund	2.0
13) Securitization of unclaimed property revenue	40.0
FY 05 Total - Budget Act	<u>\$ 389.7</u>

November Revisions:

13) Re-estimate of unclaimed property liquidation	33.0
14) Cancellation of securitizing unclaimed property revenue	<u>(40.0)</u>
Net Changes	(7.0)
FY 05 Total - Revised	<u>\$ 382.7</u>

FY06 Revenue

Loss of One-time Revenue Sources & Tax Changes

	FY 06
One-time revenue not available in FY 06 (see FY05 list)	\$ (382.7)
<u>Plus:</u>	
1) Increase in the property tax credit	(105.0)
1) Increase in the Income Tax exemption for Single filers	(4.7)
2) Succession Tax phase-out	(11.0)
FY 06 - Unavailable one-time revenues & tax changes	<u>\$ (503.4)</u>

Major Accounts
(as of November 12, 2004)

OFA CS Projections
(1Yr. wage freeze for unsettleds)

	Approp.		(1Yr. wage freeze for unsettleds)	
	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	
DSS - Medicaid	2,926.1	3,165.7	3,371.5	
Personal Services (FY 06 and FY 07 figures are approximate)	2,448.2	2,564.1	2,673.8	
SDE - ECS	1,562.9	1,592.9	1,622.9	
Debt Service	1,311.2	1,345.5	1,451.3	
Other Expenses	454.5	463.6	472.9	
Retired State Employees Health Service Cost	377.9	415.7	457.3	
State Employees Health Service Cost	374.4	404.4	436.7	
State Employees Retirement Contributions	354.4	371.4	393.7	
DCF - Board and Care for Children (Residential, Foster & Adoption)	288.8	306.9	317.4	
DMR - Community Residential Services	258.2	287.7	302.1	
TRB - Retirement Contributions	185.3	294.0	307.3	
Social Security	180.1	195.1	203.5	
DSS - Temporary Assistance to Families (TANF)	135.3	133.4	136.1	
DSS - State Administered General Assistance (SAGA)	123.4	138.8	145.8	
DMR - Employment Opportunities and Day Services	118.3	129.7	136.2	
DSS - DMHAS-Disproportionate Share	105.9	105.9	105.9	
PILOT - Private Property	105.9	105.9	105.9	
SDE - Priority School Districts	99.8	99.8	99.8	
DOC - Inmate Medical Services	81.1	84.4	86.3	
Workers' Comp. Claims (DPS, DMR, DMHAS, DOC, DCF, DAS - wc tab)	74.5	78.7	82.3	
DMHAS - Grants for Mental Health Services	72.8	74.3	75.7	
DMHAS - General Assistance Managed Care	70.8	74.3	78.1	
PILOT - State Property	70.0	70.0	70.0	
DSS - Child Care Services-TANF/CCDBG	68.1	69.0	70.3	
SDE - Excess Cost-Student Based	67.1	123.5	140.7	
SDE - Magnet Schools	66.6	83.6	98.3	
DSS - ConnPACE	66.0	95.0	106.6	
DSS - Disproportionate Share-Medical Emergency Assistance	63.7	63.7	63.7	
DSS - Aid to the Disabled	53.5	55.3	56.4	
OPM - PILOT-New Manufacturing Machinery and Equipment	50.7	50.7	50.7	
SDE - Transportation of School Children	43.1	60.9	64.6	
Judicial - Alternative Incarceration Program	38.8	41.1	42.0	
DSS - Connecticut Home Care Program	36.7	41.1	43.1	
DSS - DSH-Urban Hospitals in Distressed Municipalities	31.6	31.6	31.6	
DSS - Old Age Assistance	29.9	32.9	32.9	
DSS - HUSKY Program	26.6	27.6	29.0	
DMHAS - Managed Service System	26.4	26.8	27.3	
DMHAS - Special Populations	25.0	25.2	25.7	
Totals - Major Accounts	12,473.6	93.5%	13,330.1	14,015.2
All Other Gross GF Appropriations	862.6	6.5%	879.9	897.4
Gross GF Appropriations for FY 05	13,336.2	100.0%	14,209.9	14,912.7